

# INTERNATIONAL MONETARY FUND

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May 13, 1982

Press Communiqué of the Interim Committee  
of the Board of Governors of the  
International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eighteenth meeting in Helsinki, Finland, on May 12-13, 1982 under the chairmanship of the Honorable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.
2. The Committee discussed the world economic outlook and the policies needed to deal with the difficult problems now confronting most countries. Attention was focused on the continuation of high inflation in many countries, the slow pace of economic activity, high and rising unemployment, increasing protectionism, high interest rates and widely fluctuating exchange rates in the major industrial countries, and the prevalence of large external payments imbalances in many countries.

The Committee noted that there are no quick and easy ways of solving these problems. Achievement of a substantial and lasting improvement in economic performance would require sustained pursuit of a balanced set of policies aimed at reducing inflation, improving productive efficiency, and putting external imbalances onto a sustainable basis.

The Committee noted that significant progress in the fight against inflation was already evident in some countries. Enduring further progress could be expected over the next few years so long as prudent policies of restraint were maintained. These policies need to be supported by a moderation in the growth of incomes.

It was the Committee's view that fiscal policies consistent with firm monetary policies would offer the best prospects for an enduring reduction in interest rates and in the wide fluctuations in exchange rates that have accompanied high and volatile interest rates over the past two years. A better convergence in economic policies and anti-inflationary performances among industrial countries would also foster more stable exchange rates. The Committee stressed the urgent need, in present circumstances, for decisive commitments--especially on the part

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of the governments of the major industrial countries--to budgetary discipline and smaller fiscal deficits. Only through such commitments can national authorities establish the credibility of anti-inflation policies and avoid the likely diversion of available flows of saving away from productive investment.

The Committee agreed that monetary restraint must remain an essential element of the overall strategy of economic policy in the industrial countries. An undue shift toward monetary expansion would risk an upward ratcheting of the rate of inflation, all the more so because of the current sensitivity of private market participants to the inflationary effects of growth in money holdings.

The Committee also visualized an important role for supply-side policies designed to encourage production and productivity, and a reduction of rigidities in the markets for labor and goods.

The Committee voiced particular concern regarding the high levels of unemployment now prevailing in most countries. The comprehensive type of policy approach that it advocated did not rest on a view that the fight against inflation is more important than the fight against unemployment. Rather, the Committee's view was that combating inflation is a necessary step for resumption of sustainable growth at a satisfactory pace. The Committee considered that reduction in inflation and inflationary expectations, in nominal and real interest rates, and in existing rigidities is essential for steady expansion of output and reduction of unemployment.

Discussion of the rapidly changing pattern of international payments pointed to a further need for adjustment of external positions. The Committee noted in particular that current account deficits remained high in a number of the industrial countries, and that large payments imbalances prevailed in many of the non-oil developing countries.

The Committee expressed deep concern about the current plight of non-oil developing countries. The problems of these countries, and particularly the size of their external deficit on current account, stemmed in part from factors beyond their control. The most important of these external factors were the impact of the international recession upon export markets, the sharp deterioration of the terms of trade for countries exporting mainly primary commodities, and the increase in the burden of interest charges on external debt.

The Committee noted, however, that the problems of many developing countries were exacerbated by the disruptive effects of severe inflation to which unduly expansionary fiscal and monetary policies have contributed. Pursuit of more realistic financial policies in such countries, coupled with policies to reduce structural imbalances, would greatly facilitate the orderly adjustment of domestic and external positions. The Committee recognized an urgent need for adequate flows of official development assistance and other external resources to developing countries, especially those with low per capita incomes.

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More broadly, the Committee stressed that prevailing conditions in the world economy heightened the need for international economic cooperation on many fronts. An area of special concern was that relating to international trade policies. The Committee emphasized its conviction that current pressures for protectionist approaches to problems generated by international competition must be firmly resisted by all countries, and stressed the need to eliminate these practices where they already exist.

3. The Committee emphasized the importance of the role of the Fund in the promotion of balance of payments adjustment and stressed the need for effective implementation by the Fund of its surveillance function in connection with the balance of payments and exchange rate policies of members. In the Committee's view, it was of paramount importance that Fund surveillance be exercised in an evenhanded manner for all members, whether they are large or small, industrial or developing, and whether they are using the Fund's resources or not. The importance of focusing particular attention on the international repercussions of the policies of the major industrial countries was underlined.

4. The Committee had a discussion on the subject of quota increases under the Eighth General Review. In the course of this discussion, it considered, in particular, the question of the appropriate size of an overall enlargement in quotas under that Review in the light of the role envisaged for the Fund in the 1980s, and also had a preliminary exchange of views on the distribution of any such enlargement between members. In this connection, the Committee noted the Report of the Executive Board on the status of its work and the timetable envisaged for the completion of the Review.

The Committee agreed that the Fund has an important role to play in the adjustment and the financing of balance of payments deficits, and that it must be strong enough, and have adequate resources, to be able to cope effectively with the problems it may face in the 1980s. At the same time, the Committee reiterated its view that quota subscriptions should be the primary source of financial resources for the Fund's operations. The Committee concluded, therefore, that any such increase in quotas should be adequate to enable the Fund to perform in an effective manner its functions in the 1980s in accordance with these principles, and that the Review should be completed within the agreed timetable. Noting that the present quotas of a significant number of members do not reflect their relative positions in the world economy, the Committee reaffirmed its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of these members more in line with their relative positions, taking account of the case for maintaining a proper balance between the different groups of countries.

The Committee urged the Executive Board to pursue its work on the Eighth Quota Review as a matter of high priority and to report to the Committee before the Committee's next meeting, by which time it hopes that it will be possible to reach agreement on some of the main aspects of the Review.

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5. The Committee discussed the question of allocations of SDRs in the fourth basic period which began on January 1, 1982. It noted the statement of the Managing Director that he had not been able to make a proposal for such allocations because there was not sufficient support at this time. The discussion in the Committee showed that, while a large number of members were in favor of a further allocation, the required support for an allocation was still lacking. The Committee asked the Executive Board to keep the matter under consideration and to continue its efforts to bring about a convergence of views that would permit the Managing Director to submit, as soon as possible, a proposal concerning SDR allocations in the current basic period, in accordance with the provisions of the Fund's Articles.

6. The Committee expressed its very warm appreciation to the Government and to the people of Finland for their hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Toronto, Canada, on September 3-4, 1982.

Annex

Issued in Helsinki and Washington, D.C.

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ANNEX

INTERIM COMMITTEE ATTENDANCE

May 12-13, 1982

Chairman

Allan J. MacEachen, Deputy Prime Minister and Minister of Finance  
of Canada

Managing Director

J. de Larosière

Members or Alternates

Mohammad ABAL-KHAIL, Minister of Finance and National Economy  
of Saudi Arabia  
Roberto T. ALEMANN, Minister of Economy of Argentina  
Hassan AL-NAJAFI, Governor of the Central Bank of Iraq  
Beniamino ANDREATTA, Minister of the Treasury of Italy  
Mohsen NOURBAKSH, Governor of the Bank Markazi Iran (Alternate  
for Mahfoud Aoufi, Governor of the Banque Centrale d'Algérie)  
Willi DE CLERCQ, Vice Prime Minister, Minister of Finance, and  
Minister of Foreign Trade of Belgium  
Jacques DELORS, Minister of Economy and Finance of France  
Carlos Geraldo LANGONI, President of the Banco Central do Brasil  
(Alternate for Ernane Galvêas, Minister of Finance of Brasil)  
José Ramón ALVAREZ RENDUELES, Governor of the Banco de España  
(Alternate for Juan Antonio García Díez, Minister of Economy and  
Commerce of Spain)  
Cesar E. A. VIRATA, Prime Minister and Minister of Finance of  
the Philippines (Alternate for John Howard, Treasurer, Australia)  
Sir Geoffrey HOWE, Chancellor of the Exchequer of the United Kingdom  
Ahti KARJALAINEN, Governor of the Bank of Finland  
Karl Otto POEHL, Governor of the Deutsche Bundesbank (Alternate for  
Manfred Lahnstein, Federal Minister of Finance of Germany)  
SHANG Ming, Vice President of the People's Bank of China  
(Alternate for Li Baohua, President of the People's Bank of China)  
Ray MACSHARRY, Deputy Prime Minister and Minister for Finance of Ireland  
Arthur K. MAGUGU, Minister for Finance of Kenya  
I. G. PATEL, Governor of the Reserve Bank of India (Alternate for  
Pranab Kumar Mukherjee, Minister of Finance of India)  
Tengku RAZALEIGH Hamzah, Minister of Finance of Malaysia  
Donald T. REGAN, Secretary of the Treasury of the United States  
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre  
A. P. J. M. M. VAN DER STEE, Minister of Finance of the Netherlands  
Haruo MAYEKAWA, Governor of the Bank of Japan (Alternate for  
Michio Watanabe, Minister of Finance of Japan)

Observers

A. W. Clausen, President, IRBD  
P. N. Dhar, Officer in-charge, Department of Economic and Social  
Affairs, UN  
Hans E. Kastoft, Executive Secretary, Development Committee  
Roger Lawrence, Director, Money, Finance and Development  
Division, UNCTAD  
Emile van Lennep, Secretary-General, OECD  
Fritz Leutwiler, President, Swiss National Bank  
M. G. Mathur, Deputy Director-General, GATT  
Tommaso Padòa-Schioppa, Director General, Economic and Financial  
Affairs, CEC  
Guenther Schleiminger, General Manager, BIS